



# Hamilton County

## County Administrator

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### ADMINISTRATOR

Patrick J. Thompson  
Phone (513) 946-4420

November 27, 2006

Honorable Board of County Commissioners:

With this memo, I am transmitting a balanced 2007 budget. The recommended general fund budget totals \$255 million and represents a \$1.5 million decrease from the revised 2006 budget. The budget process is a unique opportunity to examine the services provided by the county as well as the taxes and fees that pay for these services. The recommended budget is balanced though difficult choices were required concerning expenditures and revenues. The 2007 budget is my first budget as the Hamilton County Administrator. As such, I learned a great deal going through the budget development process.

With the transition of a new commissioner in January 2007, I anticipate that the Commissioners may want to consider adopting an interim budget in December to begin the 2007 fiscal year. While I am presenting the full-year recommended 2007 budget, we are prepared to submit budget resolutions for a three-month period (January-March) based on the Commissioners' direction. If an interim budget is approved by the Commissioners, I will work with the Commissioners to develop and execute a process to complete work on the entire 2007 budget in early 2007. We will schedule the requisite public hearings for the 2007 budget for December though additional public hearings may be added based on Commissioners direction.

This budget maintains core services, includes specific recommendations to make progress towards the Commissioners' goals, and recognizes the important investments necessary to attract, retain, and enhance our workforce. This budget also helps to set the tone for future budgets as Hamilton County prudently prepares for fiscal challenges in the coming years, including continued flat revenue growth, the need to develop alternatives to relieve overcrowding at the jail, and the loss of tenured staff due to retirements.

This transmittal provides the highlights of the recommended 2007 budget, including policy initiatives, a general fund and all funds summary, a discussion of compensation and benefits, and

the presentation of other major budget issues. The remaining sections of the recommended 2007 budget document include detailed information for the general fund and appropriated restricted funds, department-level program summaries presented by functional areas (i.e., Economic Development, Public Safety, etc.), debt service, and the capital plan. This transmittal and the recommended 2007 budget summary are available on the county's website.

## **POLICY BUDGET**

I recognize that all of the programs and services provided by the county are valuable and each has special significance to some citizen, business, and/or visitor to Hamilton County. However, in an environment of limited resources, funding is directed to the policy priorities set by the County Commissioners. For 2007, these include:

- Improve Public Safety
- Control Spending and Taxation
- Promote Economic Development
- Improve County Management

The recommended 2007 budget includes the following to support these policy priorities.

### **Improve Public Safety**

- Increase Prosecutor detective hours from 35 to 40 hours per week;
- Full-year funding of the Over-the-Rhine (OTR) probation sub-station;
- Continued funding (six months) of the one-year trial of OTR Sheriff's patrols;
- An additional mental health services position for jail diversion;
- An additional \$500,000 in Sheriff's Office overtime for major crime investigations;
- Additional Coroner positions for DNA, firearm, and drug investigative analyses;
- Funding support for Crime Stoppers; and
- An additional Sheriff's Office position to address a felony warrant backlog.

With the defeat of the sales tax increase to build a new jail, I will work with the Commissioners and other stakeholders to develop both near-term alternatives to jail overcrowding and a longer-term, permanent solution. A more detailed discussion on the jail issue is provided later in this transmittal letter. Additionally, the recommended 2007 budget includes \$25,000 to support the regional Crime Stoppers program. This initiative is in conjunction with the 2007 development of a citizen rewards program involving several county and City of Cincinnati entities. I will come back to the Commissioners in 2007 once a citizen rewards program is developed.

### **Control Spending and Taxation**

- Voter-approved decrease in the Hospitalization and Children's Services levies totaling 18% from 2006;
- Assess in 2007 the possibility of moving Family and Children First Council administration into the Job and Family Services (JFS) Department;
- Introduce in 2007 managed competition for fleet management, facilities management, and tuberculosis control;
- Consolidate Child Support Enforcement attorneys from the Prosecutor's Office to JFS (\$380,000 in savings);
- Implement the Commissioner-approved consolidation of the ADAS and Mental Health Boards for an estimated savings of \$700,000 to \$1,000,000 annually, which can be used to provide additional mental health and/or alcohol treatment services;
- Total spending decrease of 0.6%, or \$1.5 million from the revised 2006 budget (well under inflation of 3.0%); and
- General fund staffing decreases a net 49 full-time equivalent (FTE) positions.

### **Promote Economic Development**

- A new economic development coordinator position to serve as a liaison for larger developments;
- Implement revised sewer district development policies;
- Inflationary increase for Hamilton County Development Company (HCDC) funding;
- Revise subdivision regulations to streamline application and review processes; and
- Increase Home Improvement Program (HIP) eligibility thresholds, expand advertising budget, and include certain commercial properties within business districts.

### **Improve County Management**

- Negotiated favorable employee benefit rates for 2007 and continued the transition to a consumer-directed health plan;
- Consolidated Juvenile Court facility management into the County Facilities Department;
- Begin Court Reporter modernization via technology (\$800,000 in savings);
- Continue a focused review of all vacancies during 2007, which in 2006 saved over \$500,000;
- Continue *County Connections* and "Ask Patrick" employee forums to improve communication flow;
- During 2007, the management of the County's information technology will be examined for duplication of services and integration of county-wide enterprise issues (i.e., email systems); and
- Several departmental consolidations will be assessed in 2007 (see below).

In 2007 various development services housed under the Board of County Commissioners will be examined to determine whether some of those functions would be more effectively and appropriately housed under common agencies while still ensuring that the Commissioners fulfill its statutory responsibilities in these areas. The county's management of capital projects within the Public Works Department will also be examined to determine whether the existing organizational model is appropriate given current capacity and long-term expected workload in this area. It is anticipated that this analysis will result in some savings as these functions are more appropriately aligned.

In addition, I believe that the Commissioners' economic and community development priorities can be more effectively served by integrating the Community Development Department, which manages federal CDBG and HOME grants, with the Regional Planning Commission. In addition to its other roles, the Regional Planning Commission provides assistance to various Hamilton County communities experiencing redevelopment challenges. In the long run, a more unified organizational structure will help focus available resources toward the county's most pressing issues.

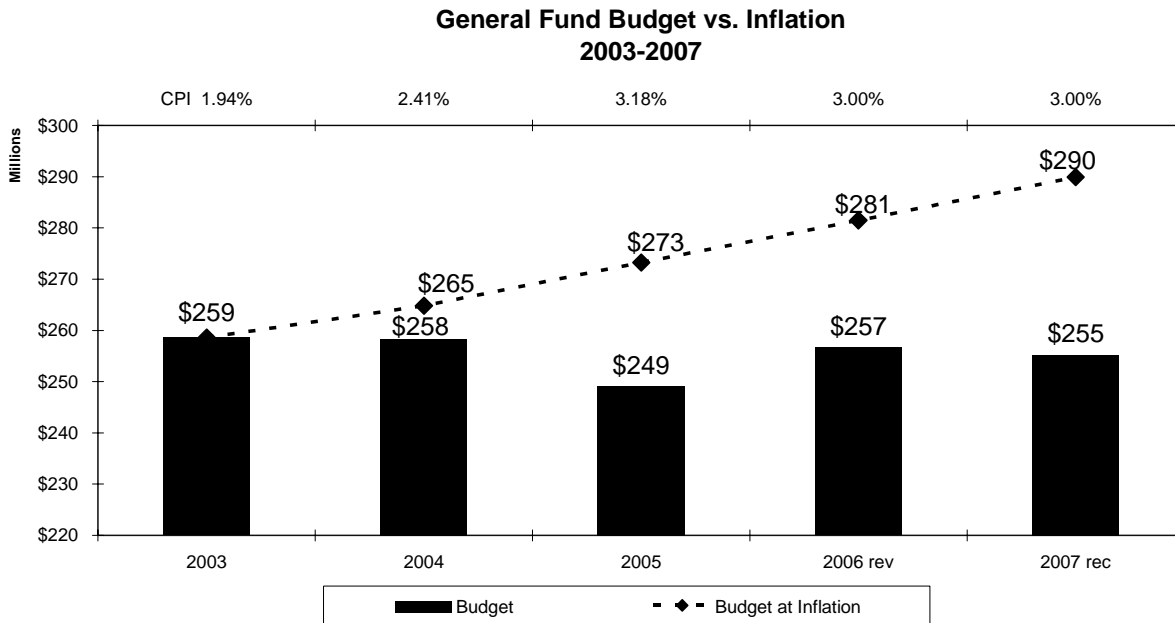
For additional information concerning 2006 accomplishments, please see the second annual County Report Card which will be distributed throughout the county during December. This publication as well as additional performance information is available on the county website at ([www.hamiltoncountyohio.gov](http://www.hamiltoncountyohio.gov)).

## **BUDGET SUMMARY**

The recommended 2007 budget is best reviewed in the context of the general fund budget and the all funds budget. The general fund budget includes general revenues (i.e., sales and property taxes) that the Commissioners have the most discretion in allocating to services. The all funds budget includes the general fund as well as restricted funds, which are administratively and legally segregated for specific purposes. These restricted funds include such funds as the Metropolitan Sewer District and the Coroner's out-of-county fees fund.

### **General Fund**

The recommended 2007 general fund budget totals \$255.2 million and represents a \$1.5 million decrease from the 2006 revised budget. In relationship to the Commissioners' policy of keeping expenditure growth within the rate of inflation, the recommended 2007 general fund budget is \$9.2 million under the anticipated 2007 budget, assuming an inflation rate of 3% applied to the 2006 revised budget.



### Revenues

General fund revenues increase \$4.3 million or 1.7% from the 2006 budget. The major general fund revenue sources of sales and property taxes are projected to decrease 2.6% and 0.75%, respectively. Partially offsetting the lack of growth in these revenue sources is a projected increase in interest earnings.

The projected net change in existing revenue sources does not provide sufficient resources to balance the general fund budget. To balance the budget, while maintaining core services and funding the policy initiatives previously noted, I am recommending an increase in the real estate transfer fee from two mills to three mills. This increase will generate approximately \$4.7 million annually. As a point of reference, it is estimated that this increase will add \$100 to the cost of selling a \$100,000 home in Hamilton County. The Ohio Revised Code permits the Commissioners to increase the real estate transfer fee up to a rate of three mills. Currently, over one half of Ohio counties are already at the three mill maximum. Increasing the transfer fee was a difficult recommendation. To the extent that 2007 actual total general fund revenues exceed projections in 2007, I will revisit the real estate transfer rate in the 2008 budget.

The recommended 2007 budget also includes inflationary increases in the storm water and inspection fees. These fees were last increased in 1988. Additional discussion on general fund revenues can be found in the Budget Summaries section of the recommended 2007 budget document.

### Expenditures

The recommended 2007 expenditure budget totals \$255.2 million and represents a decrease of \$1.5 million from the 2006 revised budget. To fund the policy initiatives previously noted and balance the budget, reductions in other areas of the budget were required. These included a \$1.5

million reduction in capital outlays and a \$0.5 million reduction in facility capital maintenance. A careful examination was made of each capital outlay request including vehicle replacements, furniture, and computer equipment.

Other expenditure recommendations include holding 2007 general fund support of various subsidies (i.e., the Regional Planning Commission and the Ohio State Extension) at the 2006 level. The budget also reduced or eliminated subsidies to the following entities:

- Port Authority (from \$350,000 in 2006 to \$175,000 in 2007); and
- Northern Cincinnati Convention and Visitors Bureau (from \$250,000 in 2006 to \$0 in 2007).

I believe the County's return on economic development funding is better leveraged with continued funding commitments to the Partnership for Greater Cincinnati and the Hamilton County Development Company.

The recommended 2007 budget does not include a transfer of interest earnings from the special levies to the Children's Services Levy Fund. While this has been a practice in recent years, projected 2007 general fund revenues are well below the rate of inflation and insufficient to balance the recommended expenditure budget for 2007. Furthermore, the 2007 budget includes \$800,000 for professional services costs associated with the county's response to the state audits of the Job and Family Services Department. It is unknown what additional costs the county will incur concerning these audits. This levy interest transfer, estimated at \$2.3 million in 2007, is not recommended to prudently prepare for potential additional audit related costs as well as maintain service levels in the budget and fund the policy initiatives previously noted. Similar to the previously noted recommended increase in the real estate transfer fee, to the extent that general fund revenues in 2007 exceed current projections, we can revisit this issue in the 2008 budget.

As noted in the compensation and benefits section later in this transmittal, the recommended budget includes a 3% general salary adjustment for non-represented staff.

### Staffing

The staffing supported in the recommended 2007 budget for the general fund totals 3,054 full-time equivalent employees (FTEs) and represents a decrease of 49 FTEs from the 2006 approved budget. This decrease includes the transfer of 29 FTEs from the Prosecutor's Office to the Job and Family Services Department to consolidate child support enforcement functions. Staffing reductions by department are described in greater detail in the budget summaries section of the recommended 2007 budget document.

### Fund Balance

A major indicator of the county's fiscal health is the fund balance maintained in the general fund. The current Commissioners' policy calls for the county to strive for a 20% general fund balance (20% of ongoing expenses, which total \$253.2 million in the recommended 2007 budget). Based on projected 2006 year-end expenditures and the recommended 2007 budget, the general fund unallocated fund balance at the end of 2007 will total \$16.7 million, or 6.6% of ongoing 2007 expenditures. The budget stabilization fund is not included in this calculation because its use is allocated to other potential purposes and contingencies.

It is important for the Commissioners to note that a \$16.7 million fund balance at the end of 2007 is a significant decrease from the \$30.7 million general fund balance projected for the end of 2006 when the 2006 budget was approved by the Commissioners in December 2005. This change in fund balance is primarily attributable to: a) the \$6.0 million litigation settlement concerning the Coroner's Office; b) boarding of inmates at the Butler County jail in 2006; c) the appropriation of Sheriff's Office labor contract increases after the 2006 budget was approved; and d) Commissioners approval of the Over-the-Rhine patrols within the Sheriff's Office for 2006.

The projected fund balance of 6.6% is on the low side of the range recommended by the Government Finance Officers Association (GFOA). The GFOA "recommends, at a minimum, that general-purpose governments, regardless of size, maintain unreserved fund balance in their general fund of no less than five to fifteen percent of regular general fund operating revenues, or of no less than one to two months of regular general fund operating expenditures." For the county to meet GFOA standards, the minimum reserve range is approximately \$12.7 million to \$38.0 million. Fund balance is an important factor in determining the county's debt rating. In its March 2005 review of general obligation debt, Moody's Investors Service reported that "the county's financial position benefits from a commitment to structural balance, sound management and a stable local economy." It cites the county's reserves and policy to spend down fund balance for non-recurring expenditures only. The spending of reserves for ongoing expenses would likely not receive a favorable comment.

Careful consideration must be given as to using fund balance for recurring costs that are above and beyond the funding level in the recommended 2007 budget for the general fund. For purposes of the recommended 2007 budget, the Sheriff's Office labor contracts are fully funded, but the other items that drew down fund balance in 2006 are assumed to be one-time expenditures in 2006 and are not included in the recommended budget. These include:

- Over-the Rhine Patrols (funded through June 2007);
- County Campus Security Patrols; and
- Inmate Housing in Butler County.

The costs for Butler County inmate housing are not included in the general fund budget because I believe they are part of a bigger solution to solving the county's jail issue.

## **All Funds**

The recommended 2007 budget for all funds totals \$1.15 billion and represents a \$52.8 million decrease (4.39%) from the 2006 approved budget. The decrease is primarily attributable to the elimination of the county's Section 8 housing program, the 2006 payment of the public safety radio notes, the reduction in the health and hospitalization levy, and the temporary suspension of stadium payments in lieu of taxes to the Cincinnati Public Schools.

These decreases are partially offset by increases in the Metropolitan Sewer District (MSD) budget. Consistent with the multi-year rate increase plan approved by the Commissioners in December 2005, the 2007 budget includes a 8.6% MSD rate increase to fund the continued operations as well as the significant capital investments required under the consent decrees concerning combined sewer overflows and sanitary sewer overflows. More detailed information on restricted funds is included in the budget summaries section of the recommended 2007 budget document.

## **Fund Watch**

Similar to the general fund, prudent financial management requires sufficient fund balance to guard against spikes in revenue flow and/or extraordinary one-time expenditures. For 2007, there are several restricted funds that will need to be monitored closely. These funds include the Water Rotary Fund, Dog and Kennel Fund, the Worker's Compensation Fund, and the Roads and Bridges Fund.

The Water Rotary Fund is an enterprise fund that provides for fire hydrant repair and maintenance within the unincorporated areas of Hamilton County. The revenue is generated from supplemental rates on water bills in these areas. The current rate does not generate sufficient resources for fire hydrant repair and maintenance operations. The administration has begun the process of hiring a consultant to recommend rate adjustments sufficient to operate the fire hydrant program over the next decade. In December I will ask the Commissioners to advance funding from the general fund balance to keep the Water Rotary Fund solvent until we implement the new rates. This advance will be repaid once any rate adjustment is implemented.

The Dog and Kennel Fund accounts for the dog licensing function as well as the county's support of the dog warden function and the animal shelter operated by the Hamilton County Society for the Prevention of Cruelty to Animals (SPCA). The license rate has not changed since 2001, but the administrative costs of the licensing program, the dog warden operations, and the contract with the SPCA have increased. The 2007 budget includes a \$425,000 general fund subsidy of the Dog and Kennel Fund. This funding level represents a \$100,000, or 30.8% increase from 2006. For 2008, I may need to recommend an increase in the dog license fee to reduce the general fund subsidy. During 2007, we will examine the contract with the SPCA and dog warden activities to ensure the county's resources are effectively used.

Similar to other employers in the state, the county participates in the state worker's compensation program. The amount the county pays each year is a factor of payroll and the county's claims history. The county determines a rate each year in the budget process for anticipated worker's



compensation costs for the coming year. Because actual claims are unknown and the county is part of a larger statewide risk pool of all entities participating in the state program, the actual costs vary year to year. The county has prudently built up a reserve in the Worker's Compensation Fund over the years, but the reserve and the current assessment rate will not support anticipated expenditure levels in the coming years. The rate is increased slightly in 2007, but will need to increase again in the 2008 budget. As a point of reference, the worker's compensation rate applies to all county positions with approximately 50% of the positions within the general fund.

The County Engineer manages the Roads and Bridges Fund. The resources for this fund come primarily from the local share of the state gasoline tax and the motor vehicle license tax, and are used to maintain the county's roads and bridges. The County Engineer develops project plans based on estimated resources and prioritization of project requests each year. To the extent that projects are reprioritized or emergencies arise, the fund must cover any shortfall. The anticipated fund balance for this fund at the end of 2007 totals \$1.1 million, or 4.9% of annual expenditures. The Engineer will need to closely monitor this fund to ensure that the fund balance is maintained in the coming years.

### **Compensation & Benefits**

The budget is balanced fiscally and makes progress towards the Commissioners' policy areas. In addition, the budget also is cognizant of the Hamilton County workforce that will implement the programs and services included in this recommended budget.

The recommended 2007 budget includes a 3% general salary increase for non-represented staff, with represented staff receiving increases consistent with ratified labor contracts.

I am recommending that salary ranges increase by this general salary adjustment. Since 2003, salary ranges have not been increased. As such, the county has fallen behind market ranges for some job classifications. This has made attracting and retaining staff difficult. During 2007, we will be identifying select positions that have fallen behind market ranges.

For our county employees, the recommended general salary increase is partially offset by a state mandated increase in the employee contribution rate to the Ohio Public Employees Retirement System (PERS) from 9.0% to 9.5%. This increase is part of a state-mandated three-year phased increase that raises the employee's contribution rate 0.5% each year from 2006 through 2008. In 2008, the total employee contribution rate to PERS will be 10.0%.

During 2007, the county will continue its transition to a consumer-directed health care program. The program, as approved by the Commissioners in October 2006, will encourage employees to take a more proactive role in accessing and using health care benefits. This will ultimately make county employees more informed consumers of health care benefits and reduce costs for the employees and the county.

A priority area for maintaining our staff is a continued commitment to professional development. The recommended 2007 general fund budget maintains training funding at the 2006 level and expands the employee tuition assistance program by \$75,000 to accommodate increasing utilization of this valuable program to encourage staff development.

## OTHER BUDGET ISSUES

### Jail Overcrowding

With the ballot defeat of the proposed increase in the county's sales tax to construct a 1,800-bed jail, the issues facing the county's corrections system did not disappear. The conclusions of the Corrections Master Plan and citizen-led Hamilton County Corrections Review Task Force are still valid. I look forward to working with the Commissioners, Sheriff, and other stakeholders at all levels of government and in the community to make building the jail and funding the associated inmate treatment programs a top priority in 2007.

In the near-term, an alternative to county general fund resources must be found to continue the boarding of county inmates in Butler County. This \$6 million annual expense cannot be supported by the general fund without significant service reductions and/or increases in taxes and fees. Furthermore, housing inmates in Butler County should not be considered a permanent solution because access to this facility is not guaranteed and Butler County will not house the county's female or high-risk male inmates.

### Job and Family Services Audits

As the Commissioners are fully aware, the county is responding to the audits of the county's Job and Family Services Department by the State Auditor's Office and the Ohio Department of Job and Family Services (ODJFS). The recommended 2007 budget includes \$800,000 for the county's review and response to the audits; however, it is unknown at this time if this funding level will be sufficient. These unanticipated costs will be, in part, funded with special levy interest earnings and was previously discussed on page VI.

### The Banks Riverfront Development

On September 15, 2006, the Banks Working Group (BWG) entered into a Memorandum of Understanding (MOU) with AIG Global Real Estate Investment Corporation and Carter. Under the MOU, the BWG is working exclusively to negotiate a Master Development Agreement with AIG/Carter. The exclusive negotiating period expires on February 15, 2007. The BWG would ultimately recommend for consideration a proposed Master Development Agreement and an Infrastructure Development Agreement to the City Council and Board of County Commissioners. To date, negotiations have focused on financial commitments, development mix, density, and phasing; public infrastructure development and funding; and regulatory and legislative approval processes.

City and county staff have also continued to work with federal and state officials regarding approximately \$28 million of funding from various grants that has been identified for project infrastructure (streets and parking garage). Currently, staff is working with federal officials to determine which federal agency (Federal Transit Administration - FTA or Federal Highway Administration - FHWA) will serve as the lead in working with local government. City and county staff have met with the regional directors of both FTA and FHWA in recent months to assist in this process and to better educate them about the project. In related work, City and

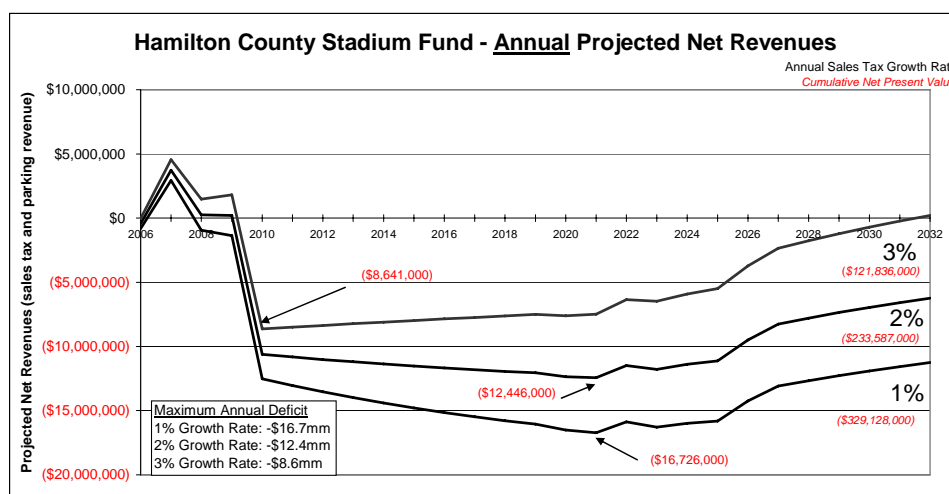
county staff, along with experienced construction management firms (Messer and Turner), conducted an extensive review of cost projections for the streets, garage and utilities associated with the Banks project. This effort confirmed estimated costs for all Banks infrastructure of \$77-80 million in 2006 dollars.

### Stadium Sales Tax Fund

Hamilton County has constructed over \$940 million of public improvements along the riverfront in the past eight years. The improvements include Paul Brown Stadium (2000), Great American Ball Park (2003-2004), street improvements (2000-2004), and both surface and structured parking (2000-2004). The primary funding source for these riverfront projects is the ½ cent sales tax approved by voters in 1996. The ½ cent sales tax is expected to generate \$64 million in 2006. The county issued a total of \$694.5 million in debt in two large issuances, 1998 (ending in 2027) and in 2000 (ending in 2032) for the construction of the stadiums and related infrastructure.

Currently, the outstanding sales tax debt related to the riverfront projects is \$606.1 million. Entering 2006, the county had a fund balance of \$11.9 million within the stadium sales tax fund and was projecting an annual deficit within the fund. Recently, the Commissioners agreed to amend the payment-in-lieu of taxes (PILOT) agreement with the Cincinnati Public Schools (CPS) to provide the county with \$39.5 million of cash flow relief from 2006-2009. In gaining this relief, the county did not incur additional costs as the present value of the revised structure is approximately equal to the previous agreement with CPS.

Market conditions also have presented an opportunity to refund some portion of the existing sales tax debt. Depending on the market, we project a present value savings of \$15-20 million. This refunding is expected to be completed by the end of November 2006. The chart that follows depicts the projected annual net revenue within the stadium sales tax fund. The impact of bond refunding is not included in the chart. Given current projections at 1-2% annual sales tax growth, an overall fund deficit is projected in 2013-2014.



**Historical Sales Tax Growth: 5 Year Average = 1.06% 10 Year Average = 3.08%**

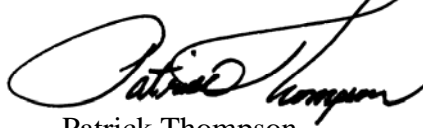
Note: Sales tax revenue projections are based on 2005 revenues. This financial model does not include \$9.6 million outstanding from the State of Ohio's original \$81 million promise. Net Revenues do not reflect Fund Balances at 2005 year end. Net Revenues include estimated PILOT payment adjustments (as of 11/6/06).

Source: Public Financial Management, Inc. 11/06/06

## CONCLUSION

Difficult choices and departmental sacrifices were made to develop this balanced budget. Each decision is a value judgment that will be open to interpretation, but on balance, this budget maintains existing services and invests in priority areas. I look forward to working with you in completing the 2007 budget. I wish to publicly thank the other elected officials and department heads for their assistance in preparing this budget. Additionally, I want to acknowledge the considerable efforts of the Office of Budget and Strategic Initiatives in preparing and executing the budget process.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Patrick Thompson". The signature is fluid and cursive, with a large initial "P" and a long, sweeping underline.

Patrick Thompson  
County Administrator